Ntabankulu Local Municipality
Financial statements
for the year ended 30 June 2015

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Ntabankulu Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act no 117 of 1998). The municipality's operations are governed by the Municipal Finance Management Act (Act 56 of 2003), the Municipal Structure Act (Act 117 of 1998), the Municipal Systems Act (Act 32 of 2000) and other various legislations and regulations.
Council	
Honourable Mayor	Cllr V Mgoduka
Other Council members	Cllr N Ndabeni
	Cllr S Sopaqa
	Cllr L Ndamase
	Cllr M Tyhalibongo
	Clrr K Nonkondlo
	Cllr B Ndamase
	Cllr M Magatyana
	Cllr L Ntantini
	Cllr N Mazaza
	Cllr S Sicwayi
	Cllr M Mkhize
	Cllr S Cembi
	Cllr K Nomanzoyiya
	Cllr B Ntutuka
	Cllr V Macebo
	Cllr L Sigingotho
	Cllr V Mathwasa
	Cllr N Ncekana
	Cllr N Zweni
	Cllr S Sicwayi
	Cllr N Pikwa
	Cllr N Mpompoza
	Cllr T Msuthu
	Cllr M Mamfengu
	Cllr R Poswa
	Cllr M Mtakasi
	Cllr M Gweqani
	Cllr M Siguqa
	Cllr N Mbonomtsha
	Cllr M Madikizela
	Cllr S Nompula
	Cllr Z Lwana
	Cllr S Magagasa
	Cllr N Ndoyisile
	Cllr L Talatala
Grading of local authority	Grade 2
Chief Finance Officer (CFO)	Ms T Jako-Wutu /
	Ms N. Gixane (Acting CFO)

General Information

Accounting Officer	Ms S Mankahla
Registered office	Erf 85 Main Street Ntabankulu 5130
Postal address	P.O. Box 234 Ntabankulu 5130
Bankers	First National Bank Mthatha
Auditors	Auditor-General of South Africa

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The reports and statements set out below comprise the financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
DSRAC	Department of Sport, Recreation, Arts and Culture
DEDEAT	Department of Economic Development, Environmental Affairs & Tourism
EPWP	Expanded Public Works Programme
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
ECDC	Eastern Cape Development Corporation
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
SA GAAP	South African Statements of Generally Accepted Accounting Practice

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and were given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or the deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, she is supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The financial statements set out on pages 6 to 55, which have been prepared on the going concern basis, were approved by the Council on 31 August 2015 and were signed on its behalf by:

Ms S Mankahla
Accounting Officer

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2015.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year, 5 (five) meetings were held.

Name of member	Number of meetings attended
Mr A Wakaba (Chairperson)(Resigned on 30 June 2015)	5
Mr M Mandla	4
Mr S Mbutuma	4

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

Evaluation of financial statements

The audit committee has:
- reviewed and discussed the audited financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management’s response thereto;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the financial statements, and is of the opinion that the audited financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

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Chairperson of the Audit Committee

Date: ______________________

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2015.

1. Review of activities

Main business and operations

The municipality operates on a budget that has been presented to the National and Provincial Treasury, continuing its mandate to provide municipal services to the residents of Ntabankulu.

During this year, the municipality successfully sourced a loan of an amount of R40.1 million from the Development Bank of South Africa for the electrification of its villages. We anticipate that we will obtain further funding in the future from this and other sources, for other service delivery programs, including the tarring of the town streets and to further reduce the number of unelectrified households.

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in our opinion require any further comment.

Net profit of the municipality was R 37 196 538 (2014: surplus R 26 164 018).

2. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year that may have material significance on these financial statements.

4. Basis of preparation

The financial statements have been prepared in accordance with the South African Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
Assets			
Current Assets			
Inventories	3	10 582 250	19 416 788
Receivables from exchange transactions	4	(36 800)	287 533
VAT receivable	5	6 917 349	591 209
Receivables from non-exchange transactions	6	1 133 159	591 588
Cash and cash equivalents	7	1 894 217	9 318 954
		20 490 175	**30 206 072**
Non-Current Assets			
Investment property	8	10 374 131	11 657 787
Property, plant and equipment	9	240 319 293	156 438 813
Intangible assets	10	122 189	93 424
		250 815 613	**168 190 024**
Total Assets		**271 305 788**	**198 396 096**
Liabilities			
Current Liabilities			
DBSA Loan	14	18 052 174	-
Payables from exchange transactions	11	7 055 868	6 165 163
Unspent conditional grants and receipts	12	1 575 663	1 595 084
Current portion of long service awards	13	-	179 489
		26 683 705	**7 939 736**
Non-Current Liabilities			
DBSA Loan	14	11 958 385	-
Provisions	15	10 004 568	5 175 900
Long service awards	13	876 736	697 247
		22 839 689	**5 873 147**
Total Liabilities		**49 523 394**	**13 812 883**
Net Assets		**221 782 394**	**184 583 213**
Accumulated surplus		221 782 394	184 583 213

* See Note 44 & 46

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
Revenue			
Service charges	16	232 708	169 893
Rental of facilities and equipment		947 830	813 025
Licences and permits		130 571	172 276
Rendering of services		-	30 855
Other income	18	407 292	1 791 308
Interest received - Investments and outstanding debtors		2 229 577	1 754 380
Property rates	20	2 721 629	2 891 359
Government grants and subsidies	21	141 758 516	118 638 030
Fines		1 191 146	605 789
Total revenue		**149 619 269**	**126 866 915**
Expenditure			
Personnel	22	(39 430 636)	(33 435 606)
Remuneration of councillors	23	(9 163 066)	(9 026 935)
Depreciation and amortisation	24	(10 582 651)	(9 127 792)
Finance costs	25	(298 473)	(11 689)
Impairment of debtors	26	(1 406 674)	(1 906 457)
Impairment of inventory	27	(9 105 300)	-
Repairs and maintenance		(1 369 025)	(791 503)
Loss on disposal of assets		(34 775)	(412 629)
General expenses	28	(42 380 277)	(45 990 288)
Total expenditure		**(113 770 877)**	**(100 702 899)**
Operating surplus		**35 848 392**	**26 164 016**
Fair value adjustment: Investment Property	45	1 348 146	-
Surplus for the year		**37 196 538**	**26 164 016**

* See Note 44 & 46

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2013	**158 419 195**	**158 419 195**
Changes in net assets		
Surplus for the year	14 399 593	14 399 593
Total changes	14 399 593	14 399 593
Opening balance as previously reported	172 818 788	172 818 788
Adjustments		
Prior year adjustments	11 767 068	11 767 068
Restated* Balance at 01 July 2014 as restated*	**184 585 856**	**184 585 856**
Changes in net assets		
Surplus for the year	37 196 538	37 196 538
Total changes	37 196 538	37 196 538
Balance at 30 June 2015	**221 782 394**	**221 782 394**

* See Note 44 & 46

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Taxation		2 721 629	1 408 721
Cash receipt from consumer debtors		3 474 038	6 824 469
Grants		141 142 550	118 638 030
Interest income		2 229 577	1 754 380
		149 567 794	128 625 600
Payments			
Employee costs		(48 619 202)	(42 385 945)
Suppliers		(51 021 858)	(48 203 063)
Interest paid		(298 473)	(11 689)
		(99 939 533)	(90 600 697)
Net cash flows from operating activities	29	**49 628 261**	**38 024 903**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(87 315 185)	(38 068 788)
Proceeds from sale of property, plant and equipment	9	280 393	1 228 786
Purchase of other intangible assets	10	(28 765)	-
Net cash flows from investing activities		**(87 063 557)**	**(36 840 002)**
Cash flows from financing activities			
Repayment of dbsa loan		30 010 559	-
Movement in long service awards		-	158 173
Net cash flows from financing activities		**30 010 559**	**158 173**
Net increase/(decrease) in cash and cash equivalents		**(7 424 737)**	**1 343 074**
Cash and cash equivalents at the beginning of the year		9 318 954	7 975 880
Cash and cash equivalents at the end of the year	7	**1 894 217**	**9 318 954**

* See Note 44 & 46

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	264 600	(164 600)	**100 000**	232 708	**132 708**	
Rental of facilities and equipment	1 039 139	-	**1 039 139**	947 830	**(91 309)**	
Licences and permits	167 000	(50 000)	**117 000**	130 571	**13 571**	
Other income	3 036 000	6 853 676	**9 889 676**	407 292	**(9 482 384)**	
Interest received	1 330 000	1 850 000	**3 180 000**	2 229 577	**(950 423)**	
Total revenue from exchange transactions	**5 836 739**	**8 489 076**	**14 325 815**	**3 947 978**	**(10 377 837)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	2 688 431	-	**2 688 431**	2 721 629	**33 198**	
Transfer revenue						
Government grants & subsidies	141 569 000	46 139 883	**187 708 883**	141 758 516	**(45 950 367)**	
Fines	1 011 632	-	**1 011 632**	1 191 146	**179 514**	
Total revenue from non-exchange transactions	**145 269 063**	**46 139 883**	**191 408 946**	**145 671 291**	**(45 737 655)**	
Total revenue	**151 105 802**	**54 628 959**	**205 734 761**	**149 619 269**	**(56 115 492)**	
Expenditure						
Personnel	(39 150 730)	-	**(39 150 730)**	(39 430 636)	**(279 906)**	
Remuneration of councillors	(9 747 910)	-	**(9 747 910)**	(9 163 066)	**584 844**	
Depreciation and amortisation	(3 000 000)	750 000	**(2 250 000)**	(10 582 651)	**(8 332 651)**	
Finance costs	(50 000)	24 104	**(25 896)**	(298 473)	**(272 577)**	
	-	-	**-**	(1 406 674)	**(1 406 674)**	
Repairs and maintenance	(3 450 000)	1 317 717	**(2 132 283)**	(1 369 025)	**763 258**	
General Expenses	(97 511 128)	(56 763 564)	**(154 274 692)**	(51 485 576)	**102 789 116**	
Provision for the rehabilitation of landfill site	(550 000)	-	**(550 000)**	-	**550 000**	
Provision for bad debts	(500 000)	-	**(500 000)**	-	**500 000**	
Provision for annual leave	(767 520)	-	**(767 520)**	-	**767 520**	
Total expenditure	**(154 727 288)**	**(54 671 743)**	**(209 399 031)**	**(113 736 101)**	**95 662 930**	
Operating surplus	**(3 621 486)**	**(42 784)**	**(3 664 270)**	**35 883 168**	**39 547 438**	
Loss on disposal of assets and liabilities	-	-	**-**	(34 775)	**(34 775)**	
	-	-	**-**	1 348 146	**1 348 146**	
	-	**-**	**-**	**1 313 371**	**1 313 371**	
Surplus before taxation	**(3 621 486)**	**(42 784)**	**(3 664 270)**	**37 196 539**	**40 860 809**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(3 621 486)**	**(42 784)**	**(3 664 270)**	**37 196 539**	**40 860 809**	

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2015											
Financial Performance											
Property rates	2 688 431	-	2 688 431	-		2 688 431	2 721 629		33 198	101 %	101 %
Service charges	264 600	(164 600)	100 000	-		100 000	232 708		132 708	233 %	88 %
Investment revenue	1 330 000	1 850 000	3 180 000	-		3 180 000	2 229 577		(950 423)	70 %	168 %
Transfers recognised - operational	141 569 000	46 139 883	187 708 883	-		187 708 883	120 181 516		(67 527 367)	64 %	85 %
Other own revenue	5 253 771	6 803 676	12 057 447	-		12 057 447	4 024 984		(8 032 463)	33 %	77 %
Total revenue (excluding capital transfers and contributions)	**151 105 802**	**54 628 959**	**205 734 761**	**-**		**205 734 761**	**129 390 414**		**(76 344 347)**	**63 %**	**86 %**
Employee costs	(40 285 574)	-	(40 285 574)	-	-	(40 285 574)	(39 430 636)	-	854 938	98 %	98 %
Remuneration of councillors	(9 163 066)	-	(9 163 066)	-	-	(9 163 066)	(9 163 066)	-	-	100 %	100 %
Debt impairment	(550 000)	24 104	(525 896)			(525 896)	(1 406 674)	-	(880 778)	267 %	256 %
Depreciation and asset impairment	(3 500 000)	750 000	(2 750 000)			(2 750 000)	(19 687 951)	-	(16 937 951)	716 %	563 %
Finance charges	(50 000)	24 104	(25 896)	-	-	(25 896)	(298 473)	-	(272 577)	1 153 %	597 %
Other expenditure	(97 678 648)	(56 739 460)	(154 418 108)	-	-	(154 418 108)	(43 784 077)	-	110 634 031	28 %	45 %
Total expenditure	**(151 227 288)**	**(55 941 252)**	**(207 168 540)**	**-**	**-**	**(207 168 540)**	**(113 770 877)**	**-**	**93 397 663**	**55 %**	**75 %**
Surplus/(Deficit)	**(121 486)**	**(1 312 293)**	**(1 433 779)**	**-**		**(1 433 779)**	**15 619 537**		**17 053 316**	**(1 089)%**	**(12 857)%**

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	-	-	-	-		-	21 577 000		21 577 000	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**(121 486)**	**(1 312 293)**	**(1 433 779)**	**-**		**(1 433 779)**	**37 196 537**		**38 630 316**	**(2 594)%**	**(30 618)%**
Surplus/(Deficit) for the year	**(121 486)**	**(1 312 293)**	**(1 433 779)**	**-**		**(1 433 779)**	**37 196 537**		**38 630 316**	**(2 594)%**	**(30 618)%**

Capital expenditure and funds sources

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Total capital expenditure	-	-	-	-		-	74 105 753		74 105 753	DIV/0 %	DIV/0 %

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Trade receivables and/or loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for

1.3 Investment property (continued)

- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

1.3 Investment property (continued)

Transitional provision

The municipality changed its accounting policy for investment property in 2015. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in 8. The transitional provision expires on 30 June 2018.

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where investment property was acquired through a transfer of functions, the municipality is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2015 and investment property has accordingly been recognised at provisional amounts, as disclosed in 8.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any associated presentation and disclosure requirements need not be complied with for investment property not measured in accordance with the requirements of the Standard of GRAP on Investment property.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

1.4 Property, plant and equipment (continued)

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	30 years
Furniture and fixtures	Straight line	5 to 7 years
Motor vehicles	Straight line	4 to 7 years
Office equipment	Straight line	5 to 7 years
IT equipment	Straight line	3 to 5 years
Infrastructure	Straight line	20 to 30 years
Community	Straight line	10 to 30 years
Bins and containers	Straight line	10 to 15 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

1.6 Intangible assets (continued)

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

1.7 Financial instruments (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;

1.7 Financial instruments (continued)

- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

1.9 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Accounting Policies

1.10 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.11 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.12 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

1.12 Commitments (continued)

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

1.14 Revenue from non-exchange transactions (continued)

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.15 Borrowing costs

1.16 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

1.18 Irregular expenditure (continued)

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.19 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2014 to 30/06/2015.

The budget for the economic entity includes all the entities approved budgets under its control.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.20 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.21 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Accounting Policies

1.21 Events after reporting date (continued)

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.22 Payable from exchange and non-exchange transactions

Payables are classified as "liabilities at amortised cost" and are initially recornised at the fair value of the present obligation of past events. Subsequent measurement is at amortised value if material.

Notes to the Financial Statements

Figures in Rand	2015	2014

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 financial statements.

Notes to the Financial Statements

2. New standards and interpretations (continued)

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 20: Related parties

Notes to the Financial Statements

2. New standards and interpretations (continued)

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:
- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:
- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 financial statements.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of ‘minority interest’ has been amended to ‘non-controlling interest’, and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2016 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2016 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP

The objective of this Directive is to permit an entity to change its measurement bases following the initial adoption of Standards of GRAP. The change is based on the principles in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. This Directive should therefore be read in conjunction with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Notes to the Financial Statements

2. New standards and interpretations (continued)

In applying paragraph 13(b) of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors, this Directive allows an entity, that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model when the entity elects to change its accounting policy following the initial adoption of these Standards of GRAP. The once-off change will be allowed when the entity made an inappropriate accounting policy choice on the initial adoption of the Standards of GRAP.

Subsequent to the application of this Directive, an entity will be allowed to change its accounting policy in future periods subject to it meeting the requirements in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

The aggregate impact of the initial application of the statements and interpretations on the municipality's financial statements is expected to be as follows:

3. Inventories

Consumable stores	386 471	115 709
RDP houses and vacant land	10 195 779	19 301 079
	10 582 250	**19 416 788**

Included in the inventory is an amount of R10 195 779 (after impairment) made up of RDP houses and other vacant land that the municipality is holding with the intention to dispose in the near future.

After performing an assessment of the condition and verification of ownership of the RDP houses included in the inventory, management impaired RDP houses with a value of R7 911 740 as they were found to be structurally damaged. Management further impaired inventory of RDP houses with a value of R1 193 560 as they had been handed over to beneficiaries in previous financial periods. The total inventory impairment loss for the year is R9 105 300 as per note 27. This impairment of inventory was approved by the Council.

4. Receivables from exchange transactions

Rental debtors	198 740	(78 896)
Refuse debtors	(611 598)	11 450
Sundry debtors	376 058	354 979
	(36 800)	**287 533**

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 6 months past due are not considered to be impaired. At 30 June 2015, R - (2014: R 547) were past due but not impaired.

The ageing of these receivables is as follows:

Current	(345 964)	16 723
Greater than 60 days	144 546	245
Greater than 90 days	(387 116)	302
Over 6 months	3 177 381	344 862

Figures in Rand	2015	2014

4. Receivables from exchange transactions (continued)

Trade and other receivables impaired

As of 30 June 2015, trade and other receivables of R - (2014: R 344 824) were impaired and provided for.

The amount of the provision was R (825 778) as of 30 June 2015 (2014: R (257 444)).

The ageing of these loans is as follows:

Over 6 months	3 177 381	344 824

5. VAT receivable

VAT	6 917 349	591 209

6. Consumer debtors

Gross balances		
Rates	10 261 824	9 139 357
Council allowances to be recovered	593 004	593 004
	10 854 828	**9 732 361**
Less: Allowance for impairment		
Rates	(9 721 669)	(9 140 772)
Net balance		
Consumer debtors	540 155	(1 416)
Council allowances to be recovered	593 004	593 004
	1 133 159	**591 588**
Rates		
Current (0 -30 days)	219 327	146 703
31 - 60 days	222 190	137 360
61 - 90 days	98 638	122 019
91 - 120 days	-	77 483
121+ days	-	7 256 845
	540 155	**7 740 404**
Other (specify)		
121 - 365 days	-	7 256 848
> 365 days	593 004	-
	593 004	**7 256 848**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(9 140 772)	(7 509 698)
Contributions to allowance	(580 897)	(1 631 074)
	(9 721 669)	**(9 140 772)**

Figures in Rand	2015	2014

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	34 895	3 853 464
Investment accounts	1 859 322	5 465 490
	1 894 217	**9 318 954**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	**30 June 2014**	**30 June 2013**	**30 June 2015**	**30 June 2014**	**30 June 2013**
Main Account	9 274	3 852 866	-	9 611	3 852 866	-
MIG Account	1 000	1 000	2 011 521	1 000	1 000	2 011 521
MSIG Account	1 000	1 148	10 175	1 000	1 148	10 175
FMG Account	1 000	1 782	55 536	1 000	1 782	55 536
Vukani Account	3 115	2 987	2 868	3 115	2 987	3 115
Institutional Account	1 000	118 476	568 329	1 000	118 476	568 329
FBE Account	1 000	100 499	29 725	1 000	100 499	29 725
Thina Snako Account	84 151	83 819	83 494	84 151	83 819	83 494
Operations Account	1 000	2 253 137	60 741	1 000	2 253 137	60 741
VAT Account	601 000	-	-	601 000	-	-
DEDEAT Account	34 544	-	-	34 544	-	-
DSRAC Account	1 641	-	-	1 641	-	-
DBSA Loan	23 952	-	-	23 952	-	-
Traffic Fines Account	1 102 884	-	-	1 102 884	-	-
FNB Call account	-	655 342	-	-	655 342	-
FNB Call account	-	1 391 950	-	-	1 391 950	-
FNB Call account	-	839 192	-	-	839 192	-
FNB Call account	-	16 066	-	-	16 066	-
EPWP Account	1 000	1 005	11 349	1 000	1 005	11 349
Total	**1 867 561**	**9 319 269**	**2 833 738**	**1 867 898**	**9 319 269**	**2 833 985**

8. Investment property

	2015			2014		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	10 374 131	-	10 374 131	11 657 787	-	11 657 787

Reconciliation of investment property - 2015

	Opening balance	**Transfers**	**Fair value adjustments**	**Total**
Investment property	11 657 787	(2 631 801)	1 348 145	10 374 131

The municipality transferred Erf 1039 with a book value of R3 538 000 from Investment Property to Property, plant and equipment. Furthermore, Erf 52 with a book value of R875 818 was transferred from Property, plant and equipment into Investment Property.

A professional valuer was engaged to perform fair value assessment for the Investment Property asset category. Through this exercise, the municipality identified that a fair value adjustment of R1 348 145 was necessary to increase the recorded value of the assets.

8. Investment property (continued)

Reconciliation of investment property - 2014

	Opening balance	Total
Investment property	11 657 787	11 657 787

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

9. Property, plant and equipment

	2015			2014		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Buildings	74 931 411	(13 867 513)	61 063 898	72 299 610	(13 867 513)	58 432 097
Furniture and fixtures	2 516 652	(572 541)	1 944 111	1 995 194	(1 016 950)	978 244
Motor vehicles	5 203 931	(1 622 110)	3 581 821	2 033 750	152 157	2 185 907
Office equipment	(239 905)	(630 438)	(870 343)	666 909	(587 813)	79 096
IT equipment	1 613 669	(981 773)	631 896	1 599 062	(739 296)	859 766
Infrastructure	122 771 894	(22 909 737)	99 862 157	90 748 203	(13 537 106)	77 211 097
Leased assets	-	-	-	180 064	-	180 064
Work in progress	74 105 753	-	74 105 753	16 512 542	-	16 512 542
Total	**280 903 405**	**(40 584 112)**	**240 319 293**	**186 035 334**	**(29 596 521)**	**156 438 813**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Total
Buildings	58 432 097	-	-	-	2 631 801	-	61 063 89
Furniture and fixtures	978 245	1 323 312	-	-	-	(357 446)	1 944 11
Motor vehicles	2 185 908	2 217 570	(315 168)	-	-	(506 489)	3 581 82
Office equipment	79 096	(906 637)	-	-	-	(42 802)	(870 34
IT equipment	859 765	75 413	-	-	-	(303 283)	631 89
Infrastructure	77 211 096	20 208 079	-	-	11 764 425	(9 321 443)	99 862 15
Leased assets	180 064	-	-	(180 064)	-	-	
Work in progress	16 512 542	69 357 636	-	-	(11 764 425)	-	74 105 75
	156 438 813	**92 275 373**	**(315 168)**	**(180 064)**	**2 631 801**	**(10 531 463)**	**240 319 29**

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Total
Buildings	60 783 970	-	-	-	(2 351 873)	-	58 432 09
Furniture and fixtures	1 337 542	476 292	(184 531)	(85 787)	(69 930)	(495 341)	978 24
Motor vehicles	1 333 703	1 566 079	(951 908)	(825)	459 652	(220 793)	2 185 90
Office equipment	501 383	48 363	(90 250)	(61 627)	13 517	(332 290)	79 09
IT equipment	1 050 121	594 929	(414 726)	(253 744)	(22 025)	(94 790)	859 76
Infrastructure	64 384 985	18 690 515	-	(1)	(5 864 403)	-	77 211 09
Leased assets	-	180 064	-	-	-	-	180 06
Electricity network work in progress	-	16 512 542	-	-	-	-	16 512 54
	129 391 704	**38 068 784**	**(1 641 415)**	**(401 984)**	**(7 835 062)**	**(1 143 214)**	**156 438 81**

9. Property, plant and equipment (continued)

Depreciation rates

The depreciation methods and average useful lives of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinitely
Buildings	Straight line	30 years
Furniture and fixtures	Straight line	7 to 10 years
Motor vehicles	Straight line	5 to 10 years
Office equipment	Straight line	3 to 7 years
IT equipment	Straight line	3 years
Infrustructure	Straight line	20 to 30 years
Community	Straight line	10 to 30 years
Bins and containers	Straight line	5 years

Details of properties

Reconciliation of Work-in-Progress 2015

	Included within Infrastructure	Total
Opening balance	16 512 542	16 512 542
Additions/capital expenditure	69 357 636	69 357 636
Transferred to completed items	(11 764 425)	(11 764 425)
	74 105 753	**74 105 753**

Reconciliation of Work-in-Progress 2014

	Included within Infrastructure	Total
Additions/capital expenditure	16 512 542	16 512 542

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

10. Intangible assets

	2015			2014		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	323 927	(201 738)	122 189	295 162	(201 738)	93 424

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Total
Computer software, other	93 424	28 765	122 189

10. Intangible assets (continued)

Reconciliation of intangible assets - 2014

	Opening balance	Amortisation	Total
Computer sotware, other	150 367	(56 943)	93 424

Details of valuation

The amortisation method and average useful live of intangible assets have been assessed as follows:

Item	Depreciation Method	Average Useful life
Computer software, other	Straigih line	5 years

Other information

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality

11. Payables from exchange transactions

	2015	2014
Trade payables	2 969 873	2 030 810
Payments received in advance	-	403 005
Accrued leave pay	3 025 177	2 601 036
Accrued bonus	1 061 368	1 130 312
Provision for Workmen's Compensation	(550)	-
	7 055 868	**6 165 163**

12. Unspent conditional grants and receipts

Details of the unspent conditional grants are outlined in Note 21.

Unspent conditional grants and receipts comprises of:

	2015	2014
Spatial planning	463 116	91 657
DSRAC	311 445	760 923
ECDC	175 000	175 000
Local government	127 990	127 990
DEDEAT	498 120	644 483
EPWP	(9)	(204 969)
	1 575 662	**1 595 084**

Movement during the year

	2015	2014
Balance at the beginning of the year	1 595 084	-
Additions during the year	-	1 595 084
Income recognition during the year	(19 413)	-
	1 575 671	**1 595 084**

These amounts are invested in ring-fenced investment accounts until utilised (Refer to Note 7.

Notes to the Financial Statements

Figures in Rand	2015	2014

13. Long service awards

Reconciliation for long service awards - 2015	2015 R	2014 R
Long service award - opening balance	876 736	697 247
Addition - current portion	-	179 489
Long service award - closing balance	**876 736**	**876 736**

The long service awards plan is a defined benefit plan. At year-end 158 employees were elegible for long service awards. The current service cost for ensuing year is estimated to be R940 957 (2013-14: R161 811). At the valuation date, the long service award liability of the municipality was unfunded, no dedicated assets have been set aside to meet this liability. As a result, there valuer did not value any long service award related assets during his valuation. Key assumptions for the valuation for the 2014/15 financial year are as follows:

Discount rate	8.16%
CPI	5.96%
Salary increase	6.97%
Net Discount Rate	1.12%
Mortality	SA85-90
Normal Retirement age	63

Table A3.1 Past year and future projected Liability

	Year ending 30/06/2015 R	Year ending 30/06/2016 R
Opening Accrued Liability	876,936	1,638,024
Current-service Cost	0	0
Expense (Service and Interest Cost)	222,766	438,538
Actuarial Loss / (Gain)	718,191	0

14. DBSA Loan

DBSA Loan		
Long-term portion	11 958 385	-
The municipality obtained a loan from the Development Bank of South Africa, at a rate of 9% p.a., repayable in instalments.		
Short-term portion	18 052 174	-
	30 010 559	**-**
Total other financial liabilities	**30 010 559**	**-**
Non-current liabilities		
DBSA loan	11 958 385	-
Current liabilities		
DBSA loan	18 052 174	-

Notes to the Financial Statements

Figures in Rand	2015	2014

15. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Provision for landfill site	5 175 900	4 828 668	10 004 568

Although the municipality obtained the licence for the landfill site during the year, the landfill site is not yet operational. It is included in the work in progress asset category and operations will commence once a completion certificate is received. The calculation of the provision for the landfill site is outstanding.

Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Provision for landfill site	3 357 227	1 818 673	5 175 900

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16. Service charges

	2015	2014
Refuse collection charges	232 708	169 893

The municipality undertakes the collection of refuse from business and residential premises within the urban area. The increase in the income is due to increased number of premises charged.

Below are the monthly rates charged for this service:

Rates for refuse collection	2015 (R)	2014 (R)
Business premises (Rate per month)	90	90
Residential premises (rate per month)	60	60
	-	-

17. Revenue

	2015	2014
Service charges	232 708	169 893
Rental of facilities and equipment	947 830	813 025
Licences and permits	130 571	172 276
Services rendered	-	30 855
Other income	407 292	1 791 308
Interest received	2 229 577	1 754 380
Property rates	2 721 629	2 891 359
Government grants & subsidies	141 758 516	118 638 030
Fines	1 191 146	605 789
	149 619 269	**126 866 915**

The amount included in revenue arising from exchanges of goods or services are as follows:	2015	2014
Services charges	232 708	169 893
Rental of facilities and equipment	947 830	813 025
Licences and permits	130 571	172 276
Services rendered	-	30 855
Other income	407 292	1 791 308
Interest received	2 229 577	1 754 380
	3 947 978	**4 731 737**

Notes to the Financial Statements

Figures in Rand	2015	2014

17. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	2 721 629	2 891 359
Transfer revenue		
Government grants & subsidies	141 758 516	118 638 030
Fines	1 191 146	605 789
	145 671 291	**122 135 178**

18. Other revenue

Services rendered	-	30 855
Other revenue	407 292	1 791 308
	407 292	**1 822 163**

19. Investment revenue

Interest revenue		
Interest on outstanding debtors	520 846	453 110
Interest on investments	1 708 731	1 188 716
Interest on bank balances	-	112 554
	2 229 577	**1 754 380**

20. Property rates

Rates received

Property rates	2 721 629	2 891 359

The property rates billing above is in line wih the valuation roll. A general rate of 0.004 (2014: 0.008) is applied to property valuations to determite the assessment rates. Rebates are granted to religious and non-profit entities.

The decrease in the revenue is due to the decreased rate.

Notes to the Financial Statements

Figures in Rand	2015	2014

21. Government grants and subsidies

Operating grants

Equitable share	79 930 000	69 894 000
Electrification grant	34 500 000	20 000 000
Finance Management Grant	1 800 000	1 650 000
MSIG	934 000	899 759
IDP Grant	-	150 000
Expanded Public Works	1 913 975	1 485 546
DSRAC	779 096	73 221
Spatial Planning Grant	28 540	214 504
DEDEAT	146 363	-
LGSETA	149 542	-
	120 181 516	**94 367 030**

Capital grants

Municipal Infrastructure Grant	21 577 000	24 271 000
	141 758 516	**118 638 030**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	61 828 516	48 744 030
Unconditional grants received	79 930 000	69 894 000
	141 758 516	**118 638 030**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Equitable share is recognised directly in the statement of financial performance.

Electrification

Balance unspent at beginning of year	-	831 462
Current-year receipts	34 500 000	20 000 000
Conditions met - transferred to revenue	(34 500 000)	(20 831 462)
	-	-

The municipality is an implementing agent and does not own the asset on completion. The work in progress is recognised as an asset until the completion certificate is issued. On issue of this certificate the asset is expensed in full.

The grant is for the electrification of approved villages.

Financial Management Grant

Current-year receipts	1 800 000	1 650 000
Conditions met - transferred to revenue	(1 800 000)	(1 650 000)
	-	-

MSIG

Balance unspent at beginning of year	-	9 759
Current-year receipts	934 000	890 000
Conditions met - transferred to revenue	(934 000)	(899 759)

Notes to the Financial Statements

Figures in Rand	2015	2014

21. Government grants and subsidies (continued)

	-	-

IDP Grant

Current-year receipts	-	150 000
Conditions met - transferred to revenue	-	(150 000)
	-	-

DSRAC

Balance unspent at beginning of year	761 683	202 000
Current-year receipts	-	(73 077)
Conditions met - transferred to revenue	(586 240)	632 760
	175 443	**761 683**

Local Government

Balance unspent at beginning of year	207 990	120 000
Current-year receipts	-	87 990
	207 990	**207 990**

Spatial Planning Grant

Balance unspent at beginning of year	91 657	-
Current-year receipts	400 000	-
Conditions met - transferred to revenue	(28 540)	(214 504)
Other	-	306 161
	463 117	**91 657**

DEDEAT

Current-year receipts	539 888	-
Conditions met - transferred to revenue	(539 888)	-
	-	-

LGSETA

Balance unspent at beginning of year	82 335	-
Current-year receipts	149 542	82 335
Conditions met - transferred to revenue	(231 877)	-
	-	**82 335**

Notes to the Financial Statements

Figures in Rand	2015	2014

22. Employee related costs

Basic	26 265 376	21 671 918
Bonus	2 011 671	1 774 437
Medical aid - company contributions	1 952 341	1 647 008
UIF	229 911	213 942
SDL	333 671	285 541
Defined contribution plans	3 153 498	3 011 668
Car allowance	2 892 372	2 237 260
Housing benefits and allowances	2 106 319	1 942 074
Standby allowances	415 408	441 682
Telephone allowances	57 892	40 118
Contribution to bargaining council	12 177	11 786
LSA costs	-	158 173
	39 430 636	**33 435 607**

23. Remuneration of councillors

Salaries	8 349 463	8 270 895
Benefits	813 603	756 041
	9 163 066	**9 026 936**

24. Depreciation and amortisation

Property, plant and equipment	10 582 651	9 070 849
Intangible assets	-	56 942
	10 582 651	**9 127 791**

25. Interest paid

Interest paid	298 473	11 689

26. Debt impairment

Consumer debt impairment	1 406 674	1 906 457

The Credit and Debt Collection Policy requires management to provide for all debt that is above 180 days at 50% and to provide for 100% of all debtors that are 365 days and above. The consumer debt impairment above is the increase in provision for each year due to increased arrear debtors.

27. Inventory impairment loss

Impairments		
Inventories	9 105 300	-
During condition verification, some damaged RDP houses were found. The Council approved their impairment.		

Notes to the Financial Statements

Figures in Rand	2015	2014

28. General expenses

Accounting and audit fees - internal	650 109	686 505
Advertising	520 068	603 008
Audit fees - external	3 626 319	3 469 135
Bank charges	98 420	130 623
Capacity building	1 357 749	1 333 430
Consulting and professional fees	1 872 365	1 909 100
Electricity	740 188	755 420
Entertainment	-	394 258
Financial management expenditure	1 665 315	1 240 549
Fuel and oil	1 664 016	1 867 765
IDP development	1 926 608	1 631 555
IT expenses	352 004	452 733
Impairment of moveable assets	-	1 143 214
Indigent subsidy	8 524 502	4 976 380
Insurance	594 840	697 602
LED Projects	453 975	721 337
Library services	777 250	90 038
Marketing and communication	976 776	551 055
Municipal systems improvement (MSIG) expenditure	848 262	922 500
Occupational health and safety	223 851	32 409
Operational expenses	1 632 887	2 744 151
Postage and courier	1 618	315 024
Printing and stationery	896 848	527 287
Project expenditure	1 500 767	7 595 637
Public ammenities	308 525	514 334
Refuse bags and bins	207 000	299 002
Relocation and advertising costs - once off	-	417 737
Royalties and licence fees	140 446	5 107
SALGA Levy	462 939	462 500
Salaries and administration for PMU department	1 163 098	944 353
Security	1 332 693	913 200
Special programmes for the youth, disabled and women	396 632	421 964
Sports and recreation	164 880	123 605
Telephone and fax	2 450 574	2 263 981
Traffic and road safety	117 835	1 235 588
Travel - local	2 161 884	1 242 862
Valuation roll expenditure	288 447	454 093
Ward committee sitting expenses	1 979 650	1 374 603
Waste management	300 937	526 645
	42 380 277	**45 990 289**

Notes to the Financial Statements

Figures in Rand	2015	2014

29. Cash generated from operations

Surplus	37 196 538	26 164 018
Adjustments for:		
Depreciation and amortisation	10 582 651	9 127 792
Gain on sale of assets and liabilities	34 775	412 629
Fair value adjustment: Investment Property	(1 348 146)	-
Impairment deficit	9 105 300	-
Debt impairment	1 406 674	1 906 457
Movements in provisions	-	1 818 673
Debt impairment included in rental debtors net balance	-	142 728
Movement of inventory corrected against surplus	-	166 683
Changes in working capital:		
Inventories	(270 762)	(115 568)
Receivables from exchange transactions	324 333	508 008
Consumer debtors	(1 948 245)	(1 583 739)
Payables from exchange transactions	890 704	(1 512 408)
VAT	(6 326 140)	2 135 581
Unspent conditional grants and receipts	(19 421)	(1 145 951)
	49 628 261	**38 024 903**

30. Related parties

There were no related party transactions that took place in the 2014-15 financial year other than the remuneration as disclosed in the notes on remuneration of key management.

Key management information

Class	Description	Number
Section 56 managers and senior management	Refer to note on remuneration	6
Mayor	Refer to notes on remuneration of councillors	1
Councillors	Refer to note on remuneration of the councillors	35
Municipal Manager	Refer to the notes on remuneration of the Municipal Manager	1

Notes to the Financial Statements

31. Remuneration of executive managers

Executive

2015

	Emoluments	Other benefits	Contributions to UIF, Medical and Pension Funds	Total
Ms S Mankahla (appointed on 4 September 2014)	658 497	140 899	1 555	800 951
Mr S Matiwane	496 714	334 292	1 866	832 872
Ms N Ndlaku (appointed on 4 September 2014)	379 486	222 699	1 555	603 740
Ms C Qotoyi	752 575	202 915	1 866	957 356
Ms T Jako-Wutu	461 050	355 031	37 528	853 609
Mr S Nodo	465 406	355 031	30 202	850 639
	3 213 728	**1 610 867**	**74 572**	**4 899 167**

2014

	Emoluments	Other benefits	Contributions to UIF, Medical and Pension Funds	Total
Ms S Tantsi (resigned on September 2013)	111 589	121 185	9 160	241 934
Ms T Jako-Wutu	445 109	315 556	25 749	786 414
Mr S Nodo	443 741	335 214	27 810	806 765
Mr S Mbabala	105 051	142 784	8 052	255 887
Ms C Qotoyi	707 296	191 285	1 861	900 442
Mr S Matiwane	47 914	28 252	295	76 461
	1 860 700	**1 134 276**	**72 927**	**3 067 903**

32. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality’s operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Payables from exchange transactions with an amount of R7 055 868 (2014: R6 165 161) are exposed to liquidity risk.

32. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

No credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

Financial assets exposed to credit risks are:

	2015 R	2014 R
- Receivables from exchange transactions	(36 800)	287 533
- Receivables from non-exchange transactions	1 133 159	591 588
- Cash and cash equivalents	1 894 214	9 318 954

Market risk

The municipality is not exposed to this risk due to the nature of its operations.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

33. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

34. Events after the reporting date

There were no significant events after the reporting date that may have affected the financial statements.

35. Unauthorised expenditure

	2015	2014
Unauthorised expenditure - opening balance	36 312 065	25 135 365
Unauthorised expenditure - current year	47 337 660	5 886 909
Individual capital overspent	-	5 289 791
	83 649 725	**36 312 065**

During the previous financial year, the overall capital was not overspent, but some individual projects were overspent as a result of previous rollforward balances not included in the budgets, but used during the financial year to defray expenditure. Also, the municipality had included the normal annual bonuses in their budgets, but did not include the annual adjustment of the provision for accrued bonuses. This omission from the budget contributed to the over expenditure in the previous year. The budget overspending was further influenced by non-cash transactions that could not be accurately foreseen during the budget process. This includes impairment of receivables, contributions to accrued leave, bonusses and long service awards, the impact of a change in estimates of the landfill site and impairment of property plant and equipment.

Figures in Rand	2015	2014

36. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure - opening balance	7 295 643	5 455 879
Fruitless and wasteful expenditure for the year	51 418	1 839 764
Interest on accounts payable	-	29 268
Fruitless and wasteful expenditure to be investigated	**7 347 061**	**7 324 911**

In the current year, fruitless and wasteful expenditure was incurred on cancellation of travel bookings (R3 729), interest paid due to late payment of suppliers (R47 398) and traffic fines (R291).

The municipality paid a service provider in 2013-14 financial year a percentage of its VAT refunds to perform its monthly VAT reconciliations and submissions. This amounted to R1 839 764 during the year and was considered to fruitless and wasteful as the municipality had a staffed finance department and payments made would be less had they procured in terms of a negotiated rate per hour or fixed cost.

37. Irregular expenditure

Opening balance	31 166 599	150 105 235
Add: Irregular Expenditure - current year	97 471 196	12 536 997
Add: Reversal of amount previously condoned without following prescripts	131 284 735	-
Less: Amount written off by Council	-	(131 284 735)
Less: Amounts recoverable (not condoned)	-	(190 898)
	259 922 530	**31 166 599**

The Council has established a committee in terms of Section 32 of the Municipal Financial Management Act to investigate allegations of unauthorised, irregular or fruitless and wasteful expenditure as contemplated in terms of this section. The Committee will consider whether the municipality obtained value for money in all instances and whether the expenditure was not in vain nor due to negligence nor with management intention to defraud.

Analysis of expenditure awaiting condonation per age classification

Current year	97 471 196	12 536 997
Prior years	162 451 334	31 166 599
	259 922 530	**43 703 596**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Appointment of suppliers without supply chain processes being followed	Investigation committee appointed by Council still to investigate the details	97 471 196

38. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	462 939	462 000
Amount paid - current year	(462 939)	(462 000)
	-	-

Audit fees

Current year subscription / fee	4 632 169	2 887 263
Amount paid - current year	(4 632 169)	(2 887 263)
	-	-

Figures in Rand	2015	2014

38. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

	2015	2014
Opening balance	(485 186)	-
Current year subscription / fee	-	6 142 547
Amount paid - current year	-	(6 627 733)
	(485 186)	**(485 186)**

Pension and Medical Aid Deductions

	2015	2014
Opening balance	-	14 568
Current year subscription / fee	5 422 924	8 877 418
Amount paid - current year	(5 422 924)	(8 891 986)
	-	**-**

VAT

	2015	2014
VAT receivable	6 917 349	591 209

VAT output payables and VAT input receivables are shown in note 5.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr B Ntutuka	808	10 003	10 811
Cllr N Ndoyisile	48	698	746
	856	**10 701**	**11 557**

30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr B Ntutuka	733	7 973	8 706
Cllr N Ndoyisile	105	498	603
	838	**8 471**	**9 309**

During the year the following councillors’ had arrear accounts outstanding for more than 90 days.

30 June 2015	Highest outstanding amount	Aging (in days)
Cllr B Ntutuka	10 003	91

30 June 2014	Highest outstanding amount	Aging (in days)
Cllr B Ntutuka	7 973	91

Notes to the Financial Statements

Figures in Rand	2015	2014

38. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident		
Emergency pumbling repairs	42 250	-
Sole providers of goods and services	28 467	-
Unique service	17 940	-
	88 657	**-**

39. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	30 010 559	-
Used to finance the electrification of villages within the municipal area	(30 010 559)	-
Cash set aside for the repayment of long-term liabilities	30 010 559	-
	30 010 559	**-**

The long-term liability (DBSA Loan) has been utilised in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that the long-term liability can be repaid on redemption date.

40. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

The following goods and services were procured through a deviation from the competitive bidding process:

Name of supplier	Deviation reason	Amount (R)	Total
Sakuthwala (Pty) Ltd	Plumbing emergencies	16 150	16 150
Husting Trading (Pty) Ltd	Plumbing emergencies	14 000	14 000
Ingqayi Yabafazi (Pty) Ltd	Emergencies caused by the septic tank	12 100	12 100
Lexis Nexis (Pty) Ltd	Sole service provider of reference material	367	367
Noffy's Accomodation	Sole service provider of conference facilities within the town	28 100	28 100
Inkonjane FM	Limited quotations received due to the uniqueness of the service within the municipal area	17 940	17 940
		88 657	**88 657**

Notes to the Financial Statements

Figures in Rand	2015	2014

41. Auditors' remuneration

Auditor's remuneration (external)	3 626 319	3 469 135

42. Commitments

Authorised operational expenditure

Already contracted for and provided for		
• Expenditure for operations	1 338 715	-
• Property plant and equipment	50 133 312	6 810 116
	51 472 027	**6 810 116**

Total operational commitments		
Already contracted for and provided for	51 472 027	6 810 116

Total commitments

Total commitments		
Authorised operational expenditure	51 472 027	6 810 116

This committed expenditure relates to expenditure for operations and will be financed by available bank facilities and retained surpluses.

43. Contingencies

Contingent liabilities	Case number	2014/15 Amount R	2013/14 Amount R
Drodar Trading CC (applicant)	628/12	600 000	600 000
Drodar Trading CC (applicant)	627/12	500 000	500 000
P Ntintili (applicant)	968/12	150 000	150 000
P Ntintili (applicant)	883/12	200 000	-
Ingenious Information Systems (applicant)	Unknown	99 467	-
G Spalding trading as Solvexa (applicant)	1277/2015	829 274	-
Municipal Traffic Wardens vs State	Unknown	5 105	-
IMATU and SAMWU vs SALGA	Unknown	3 696 278	-
		6 080 124	**1 250 000**

Drodar Trading CC vs NLM (Case number 628/12)
The Applicant alleges that the municipality breached a contract by failing to pay after the applicant had supplied building material. The case is ongoing and the prospect of success is reasonable. The potential loss to the municipality is R200 000. Legal fees are estimated at R25 000.

Drodar Trading CC vs NLM (Case number 628/12)
The Applicant alleges that the municipality breached a contract by failing to pay after the applicant had supplied building material. The case is ongoing and the prospect of success is reasonable. The potential loss to the municipality is R200 000. Legal fees are estimated at R25 000.

P Ntintili vs NLM (Case number 968/12)
The plaintiff entered into an alleged contract of employment with the municipality but the municipality failed to perform as required by the contract. The case is ongoing and the prospect of success is reasonable. The potential loss to the municipality is R200 000. Legal fees are estimated at R25 000.

P Ntintili vs NLM (Case number 883/12)
The applicant allegedly entered into a contract of employment with the municipality but the municipality allegedly never honoured the agreement. The case is ongoing and the prospect of success is reasonable. The potential loss to the municipality is R200 000. Legal fees are estimated at R25 000.

Ingenious Information Systems vs NLM (Case number unknown)
The dispute is about non-payment of an invoice for services rendered. The dispute was ongoing at reporting date but subsequent to year end, the parties agreed that the municipality pay the applicant an amount of R96 467.

G Spalding trading as Solvexa vs NLM (Case number 1277/2015)
The applicant alleges that the municipality breached a contract by failing to pay the applicant for services rendered. The case is ongoing and the prospect of success is reasonable. The legal claim is R829 274. Legal fees are estimated at R400 000.

Siphokazi Cekwana vs NLM (Case number unknown)
The Municipality hosted an event on the 26 March 2015 at the Ntabankulu Sportsfield where Miss Siphokazi Cekwana was attending. During the afternoon of this event, a storm hit the area at which the event took place. The tent collapsed, injuring Ms Siphokazi Cekwana on the right foot. The attorneys are claiming damages due to negligence by the municipality. There is no reimbursement from any third parties for potential obligations of the municipality. The claim has not been quantified. The legal fees are yet to be estimated.

IMATU and SAMWU vs SALGA (Case number unknown)
On 21 August 2010, SALGA signed a wage curve agreement with both IMATU and SAMWU on behalf of municipalities. The unions have since declared a dispute and have referred this matter to the Labour Court. The Court delivered a ruling on 22 June 2012 in favour of the unions but SALGA has appealed. On 14 May 2014, the Labour Court upheld SALGA's position. The agreement in question lapsed on 30 June 2012 and the disputed matter (job evaluation function) now rests within the individual municipal management perogative. The potential damages that may arise to this municipality due to this ongoing dispute are unknown.

Contingent assets

43. Contingencies (continued)

	Case number	Amount R
Wild Coast Debt Collectors (Defendant)	4323/12	100 000
Somdaka Funeral Parlour	Unknown	70 000
		170 000

NLM vs Wild Coast Debt Collectors (Case number 4323/12)
The municipality erroneously paid the defendant an amount of R50 000 instead of the R500 that was due to the defendant. The case is ongoing and the prospects for success are reasonable. Legal costs are estimated at R5 000.

NLM vs Somdaka Funeral Parlour (Case number unknown)
The municipality entered into a lease agreement with Somdaka Funeral Parlour and, eventually, an offer for the purchase of the property was signed by the parties for the sale of the property to the parlour. An order for the eviction of the parlour awaits a resolution of the Council before it is enforced. The prospect of success is reasonable and the amount of claim is estimated at R70 000. The legal fees are estimated at R114 176.

44. Changes in accounting policy

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the following change in accounting for investment property.

Investment Property

During the year, the municipality changed its accounting policy with respect to the treatment of Investment Property in order to conform with the treatment in GRAP16. The municipality previously recognised Investment Property at cost less the annual depreciation and has changed the policy from valuing investment property from cost to annual depreciation to fair value at each reporting date with changes in fair value recognised in profit or loss.

The aggregate effect of the changes in accounting policy on the financial statements for the year ended 30 June 2015 is as follows:

Statement of financial position

	2015	2014
Investment Property		
Previously stated	8 995 605	11 657 787
Adjustment	1 348 145	-
	10 343 750	**11 657 787**

Statement of Financial Performance

	2015	2014
Fair value adjustment: Investment Property		
Adjustment	1 348 146	-

45. Fair value adjustments

	2015	2014
Investment Property	1 348 146	-

46. Prior period errors

Correction of understatement of work in progress
On recognition of completed work in progress during the financial year, management identified that the work in progress for the following was understated in the prior year while the value of the asset, work in progress was understated by the same amount. Listed below are the names of the affected projects:

Notes to the Financial Statements

Figures in Rand	2015	2014

46. Prior period errors (continued)

Name of project	Amount of understatement R
Mqatyeni Access Road	6 095 325
Caba-Mhlahlweni Access Road	2 083 080
DLTC	249 606
Ngcanaseni, Bagqozini, Ngwemnyama	3 339 058
	11 767 068

Management is correcting this error by reducing the Project Expenditure reported in the prior year and by increasing the Work in Pogress reported in the same period.

The correction of the error(s) results in adjustments as follows:

	2015	2014
Statement of financial position		
Property, plant and equipment	-	11 767 068
Statement of Financial Performance		
Project expense	-	(11 767 068)